

## Message Text

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INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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TAGS: EFIN, ETRD, EAD, UNCTAD, CIEC

SUBJECT: VAN LENNEP'S VIEWS ON DEVELOPED COUNTRY APPROACH  
TO DEBT AND COMMODITY PROBLEMS AT UNCTAD AND CIEC

1. SUMMARY AND INTRODUCTION. THIS MESSAGE REPORTS VIEWS  
CONVEYED TO MISSION BY SEC GEN VAN LENNEP FOLLOWING SEC-  
GEN'S RETURN FROM LAST WEEK'S CLUB DES AMIS DU SAHEL  
MEETING IN DAKAR. VAN LENNEP DESCRIBED HIS SUGGESTIONS  
FOR APPROACH THAT INDUSTRIALIZED COUNTRIES MIGHT TAKE TO  
DEBT AND COMMODITY FINANCING ISSUES IN UNCTAD AND CIEC,  
ALONG LINES HE HAD ADVANCED AT INFORMAL SIDE MEETING IN  
DAKAR OF "TIDEWATER GROUP" ATTENDED AMONG OTHERS BY AID  
ADMINISTRATOR PARKER.

### LDC DEBT PROBLEM

2. VAN LENNEP SAID CLOSE ANALYSIS REVEALS CLEARLY  
THAT LDC DEBT IS NOT AMENABLE TO AGGREGATED, GENERAL  
APPROACH. INCREASED BORROWING BY NON-OIL LDC'S AS A  
GROUP IN RECENT YEARS HAS BEEN DUE MAINLY TO FOUR  
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FACTORS: A) DETERIORATION IN TERMS OF TRADE, B)

RECESSION IN DEVELOPED COUNTRIES, C) EFFORTS TO KEEP UP LDC GROWTH RATE IN ANTI-CYCLICAL RESISTANCE TO ECONOMIC DOWNTURN IN DC'S, AND D) INCREASE IN IMPORTS BY NON-OIL LDC'S AT MUCH FASTER RATE THAN GROWTH IN WORLD TRADE.

3. DRAWING ON IMF DATA, VAN LENNEP NOTED THAT GROWTH OF NON-OIL LDC DEBT OF SOME \$43 BILLION FROM 1972 TO 1975 IS CONCENTRATED IN THE BETTER-OFF COUNTRIES WITH ONLY A \$6.3 BILLION INCREASE IN DEBT OF MSA'S. AT THE END OF 1975, WHEREAS TOTAL OUTSTANDING DEBT OF NON-OIL LDC'S WAS \$70.5 BILLION, OF WHICH PRIVATE DEBT WAS \$39.2 BILLION, THE MSA'S SEGMENT OF THIS DEBT WAS \$25.1 BILLION, OF WHICH ONLY \$2.3 BILLION WAS PRIVATE.

4. WITH THIS BACKGROUND, VAN LENNEP FEELS IT IS FALSE TO TALK ABOUT A GENERALIZED LDC DEBT PROBLEM. MUCH OF THE CREATION OF THE DEBT HAS BEEN ASSOCIATED WITH CYCLICAL PHENOMENA, WHICH SHOULD TURN AROUND AS RECOVERY PROCEEDS IN THE INDUSTRIALIZED COUNTRIES, OR HAS BEEN DUE TO DELIBERATE GROWTH EFFORTS OF THE MORE AFFLUENT LDC'S WHO HAVE BEEN ABLE TO BORROW IN THE WORLD FINANCIAL MARKETS WHERE THE SUPPLY OF FUNDS HAS BEEN AVAILABLE FROM THE OPEC SURPLUSES AND BECAUSE OF SMALLER DEMAND FOR CREDIT IN THE DC'S INDUCED BY RECESSION. TO THE EXTENT THERE IS A "DEBT PROBLEM" VAN LENNEP FEELS IT IS NARROWLY RESTRICTED TO THE VERY POOREST OF THE MSA'S, PERHAPS ABOUT 25 COUNTRIES WITH AN ANNUAL DEBT SERVICE OF ONLY ABOUT \$95 MILLION.

5. VAN LENNEP SUGGESTS THAT THE STRATEGY OF THE DC'S IN UNCTAD SHOULD BE TO REJECT AN OVERALL APPROACH TO DEBT, SUCH AS A DEBT CONFERENCE OR A BROAD COMMITMENT TO MORATORIA OR DEBT CANCELLATIONS. IN GENERAL THE DEBT SHOULD BE CONTINUED TO BE TREATED IN THE TRADITIONAL CASE-BY-CASE CONTEXT. HOWEVER, VAN LEENEP THINKS IT WOULD BE PRUDENT AND REASONABLE FOR THE DC'S TO HAVE A POSITIVE POSTURE REGARDING THE SMALL SEGMENT OF OVERALL LDC DEBT WHICH IS OWED BY THE POOR-LIMITED OFFICIAL USE

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EST MSA'S AND WHICH PRESENTS A GENUINE LONGER-TERM PROBLEM. HIS PROPOSAL WOULD BE TO OFFER AT UNCTAD A) THE PROSPECT OF DEBT RELIEF (CANCELLATION) FOR THE VERY POOREST MSA'S, BALANCED WITH B) SOMETHING ELSE FOR THE BETTER-OFF MSA'S AND OTHER NON-OIL LDC'S IN THE AREA OF COMMODITIES (SEE SECTION ON COMMODITIES BELOW) AND PERHAPS TRANSFER TECHNOLOGY (HE DID NOT ELABORATE ON THIS)' BUT NOT ON DEBT.

6. WITH REGARD TO DEBT RELIEF TO POOREST MSA'S, VAN  
LENNEP EXPLAINED HE RECOGNIZED THAT FOR MANY COUNTRIES  
DIRECT DEBT CANCELLATION WAS NOT PROCEDURALLY FEASIBLE  
AND WAS TANTAMOUNT TO AID IN THE SENSE THAT AN ALLO-  
CATION FROM THE AID BUDGET WOULD HAVE TO BE MADE AND  
THEN USED TO REPAY DEBTS OWED BY LDC. HE FELT THAT

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WHAT WAS MAINLY IMPORTANT AT UNCTAD WAS NOT TO SETTLE  
QUESTIONS OF IMPLEMENTATION, BUT FOR THE DC'S TO SHOW  
A POSITIVE ATTITUDE OF WILLINGNESS TO GIVE DEBT  
RELIEF TO THE POOREST MSA'S. PRINCIPLES AND CRITERIA  
(INCLUDING DEFINING COUNTRIES ELIGIBLE FOR DEBT RELIEF)  
COULD BE WORKED OUT LATER AND ACTUAL IMPLEMENTATION  
AND NEGOTIATIONS WOULD STILL BE ON CASE-BY-CASE, RATHER  
THAN IN A MULTILATERAL DEBT CONFERENCE. SECGEN  
BELIEVES THAT WHILE CIEC OFFERS A POSSIBLE FORUM  
FOR WORKING OUT THE PRINCIPLES, IT HAS THE DISADVAN-

TAGE THAT (A)POOREST MSA'S ARE NOT WELL RE-  
PRESENTED IN THE CIEC AND (B) OF GIVING G-19 LARGE  
VOICE IN WORKING OUT THE CRITERIA FOR DEBT RELIEF.  
HE CONCLUDED THAT SINCE DEBT RELIEF WAS REALLY A  
MATTER FOR CREDITORS TO DETERMINE, PERHAPSTHE BEST  
APPROACH WOULD BE FOR THE INDUSTRIALIZED COUNTRIES  
TO GET TOGETHER AND SIMPLY ANNOUNCE THE GUIDELINES  
THEY ADOPT IN ALLEVIATING THE DEBT PROBLEM OF THE  
POOREST MSA'S.

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#### COMMODITIES

7. ON COMMODITIES, VAN LENNEP ARGUES THAT ASIDE FROM  
TACTICAL CONSIDERATIONS IN UNCTAD AND CIEC, THE DEVELOP-  
ED COUNTRIES SHOULD LOOK AT THIS QUESTION MAINLY FROM  
THE VIEWPOINT OF THE JOINT INTEREST THAT BOTH THE DC'S  
AND THE LDC'S HAVE IN (A) STABILIZING COMMODITY  
MARKETS OVER TIME, (B) ASSURING SECURITY OF SUPPLY  
AND (C) FOSTERING THE INJECTION OF NECESSARY INVESTMENT  
INTO RAW MATERIAL AND COMMODITY SOURCES. THUS, RATHER  
THAN GOING FOR ANY VAGUE "INTEGRATED APPROACH" OR ANY  
OPEN-ENDED COMMITMENTS, THE DC'S SHOULD AT UNCTAD  
STRESS THEIR WILLINGNESS TO EMBARK ON AN APPROACH  
BASED ON A CONCEPT OF JOINT RESPONSIBILITY TO PROMOTE  
THE COMMON INTERESTS OF CONSUMERS AND PRODUCERS. HE  
BELIEVES THE DEVELOPED COUNTRIES SHOULD BE WILLING TO  
CONSIDER JOINT FINANCING SCHEMES PROVIDED (A) THEY  
WERE TIED TO A CASE-BY-CASE ANALYSIS OF COMMODITY  
MARKETS (B) IT WERE MADE CLEAR THAT FINANCING,  
E.G. OF BUFFER STOCKS, WOULD COME FROM BOTH CONSUMERS  
AND PRODUCERS AND (C) THE USES OF FUNDS WOULD BE  
RESTRICTED TO COMMODITY-RELATED PURPOSES THAT WOULD  
BE SPECIFICALLY AGREED IN ADVANCE. (SECGEN SUGGESTS  
THAT JOINT FINANCING CONCEPT NEED NOT A PRIORI EXCLUDE  
INTER-MINGLING OF FUNDS DESTINED FOR THE STABILIZATION  
OF SEVERAL INDIVIDUAL COMMODITIES, ALTHOUGH HE  
ACKNOWLEDGED THIS WAS NOT VERY REALISTIC SINCE IN  
PRACTICE COMMODITY PRICES TEND TO FLUCTUATE IN COMMON  
AND IN THE SAME DIRECTION. HE THOUGHT HOWEVER THAT  
ONE NEED NOT IN ADVANCE EXCLUDE USING FUNDS ACCUMULATED  
BECAUSE PRICES OF COMMODITY A WERE GOING UP TO FINANCE  
COMMODITY B WHOSE PRICES WERE GOING DOWN.)

8. VAN LENNEP RECOGNIZED THAT THERE WOULD BE SERIOUS  
INSTITUTIONAL PROBLEMS IN SETTING UP A JOINT FINANCING  
APPROACH TO COMMODITIES. IT WAS A MATTER OF FINDING AN  
APPROPRIATE ROLE FOR UNCTAD, WITHOUT, HOWEVER, GIVING  
UNCTAD ULTIMATE CONTROL.

RELATIONSHIP BETWEEN UNCTAD AND CIEC

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9. VAN LENNEP FEELS THAT ANY ORGANIC LINK BETWEEN UNCTAD AND CIEC SHOULD BE AVOIDED. HE BELIEVES HOWEVER THAT AN UNFAVORABLE RESULT IN THE UNCTAD WOULD HAVE NEGATIVE REPERCUSSIONS ON CIEC, WHILE A POSITIVE CLIMATE IN UNCTAD WOULD BE GOOD FOR THE REMAINING MONTHS OF THE CIEC PROCESS. IN THE COMMODITY AREA HE SUGGESTED IT MIGHT BE USEFUL FOR UNCTAD TO ASK CIEC TO DEVELOP FURTHER GENERAL GUIDANCE AND CONCLUSIONS WHICH MIGHT BE AGREED IN UNCTAD.

10. IN GENERAL, VAN LENNEP INDICATED THAT HIS CONTACTS WITH LDC REPRESENTATIVES IN DAKAR HAD STRENGTHENED HIS IMPRESSION THAT MANY LDC'S ARE RELATIVELY REALISTIC ABOUT WHAT TO EXPECT FROM UNCTAD AND THAT THE MEETING COULD BE SUCCESSFUL AND NOT DAMAGING TO THE INTERESTS OF THE DC'S. HIS PRESCRIPTION IS THAT THE OECD COUNTRIES SHOULD STAND FIRM IN REJECTING LDC PRESSURES FOR FAR-OUT AND UNREALISTIC PROPOSALS. AT THE SAME TIME, HOWEVER, THEY MUST BE WILLING TO SHOW THAT THEY WERE PREPARED TO WORK CONSTRUCTIVELY WITH THE LDC'S IN AREAS IN WHICH THERE IS A MUTUALITY OF INTEREST BETWEEN THE "NORTH" AND THE "SOUTH".  
TURNER

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